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United Arab Emirates

Food Processing Ingredients Sector

Report

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Report Highlights:

The processing sector in the U.A.E. is young, but growing. Nearly \$1 billion had been invested by 98 food processors in this sector as of 2000. Most processing is in the production of flour, snack foods, processed meats, edible oils, confectionery, dairy products, soft drinks, macaroni and many other products.

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TABLE OF CONTENTS

<i>SECTION I.</i>	Page 2 of 8
MARKET SUMMARY	Page 2 of 8
<i>KEY MARKET DRIVERS FOR FOOD PROCESSING</i>	Page 3 of 8
<i>SECTION II.</i>	Page 4 of 8
ROAD MAP FOR MARKET ENTRY	Page 4 of 8
A. ENTRY STRATEGY	Page 4 of 8
B. MARKET STRUCTURE	Page 5 of 8
<i>SECTION III.</i>	Page 6 of 8
COMPETITION	Page 6 of 8
<i>SECTION IV.</i>	Page 7 of 8
BEST PRODUCT PROSPECTS	Page 7 of 8
a. Products Present in the Market Which Have Good Sales Potential	Page 7 of 8
b. Products Not Present in Significant Quantities but Which Have Good Sales Potential	Page 7 of 8
<i>SECTION V.</i>	Page 8 of 8
POST CONTACT AND FURTHER INFORMATION	Page 8 of 8
 <u>TABLES</u>	
Table 1	Page 3 of 8
Table 2	Page 4 of 8
Table 3	Page 6 of 8

SECTION I. MARKET SUMMARY

The United Arab Emirates (U.A.E.) is a member of the Gulf Cooperation Council (GCC). Its economy depends heavily on revenues generated from oil exports. In recent years, the U.A.E. has begun to diversify its resources to reduce its dependency on oil. Investments particularly in the Emirate of Dubai have been encouraged to generate revenue from sectors including tourism and huge, relatively efficiently run cargo handling, product repackaging, re-export and processing facilities. In 2001, the U.A.E.'s population was estimated to be 3.3 million with one of the world's highest per capita GDP's at about \$20,000.

Food processing is one of the sectors that entrepreneurs have ventured into recently. This industry is nascent but growing. While it may have started with projects that were small in scale, a number of large processing facilities have been built. The most prominent categories covered through U.A.E. processing include packaging of edible oils, flour and feed milling, reconstitution of juices and soft drinks, snack foods, meat and poultry processing and a number of others. The growth in processing has opened new export opportunities for U.S. suppliers of high quality, bulk and intermediate food products, in light of the limited local agricultural production. In the absence of accurate trade statistics, it is very difficult to provide an estimation of the value of food ingredients imported into the country.

The number of food processors in the U.A.E. increased by 10 to nearly a 100 establishments between 1998 and 2000, with total investment of about U.S.\$1 billion. Many of these businesses are running more than one type of food production.

Investments in the production of soft drinks, the bottling of mineral water and the manufacturing of chocolate and confectionery products have doubled between 1998 and 2000.

Moreover, there has been an increase of 50

percent in dairy product manufacturing and a 60 percent jump in the processing of fruits and vegetables from 1998 to 2000. The next few years will witness the addition of new food processing plants such as the one which is being built in Dubai to clean and prepare vegetables in addition to the production of fresh juices. Two new soybean crushing facilities with total daily crushing facility of 6,000 MT, are being constructed and are expected to be operational by early 2003. They will produce soybean meal and soybean oil, mostly for exports. The expected growth rate for the next five years differs among the sectors. Yet, in general, an average of 10-15 percent annual expansion is expected in the value of output from the U.A.E.'s food processing.

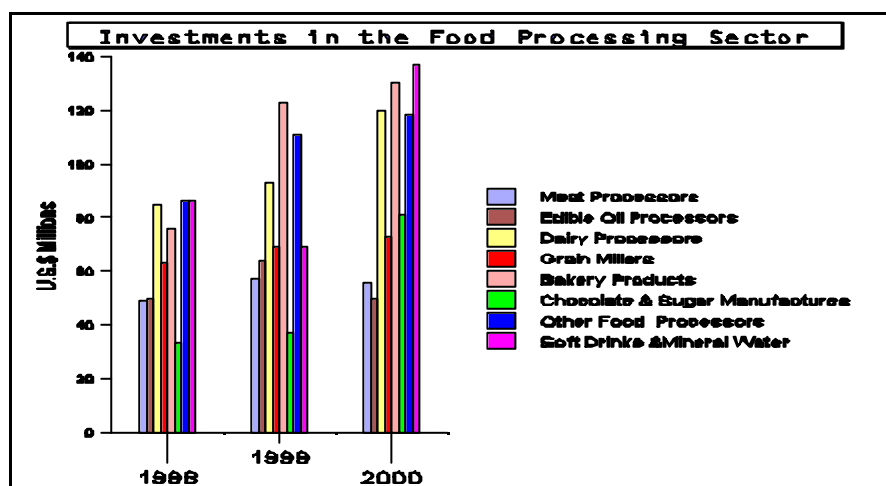


Table -1 : Number of Establishments Aand Type of Food Processing

Type of Food Production	Number of Firms
Juices	8
Dairy Products	10
Meat Processing	6
Bakeries	25
Flour Milling	4
Sugar Refining	1
Edible Oil Refining/Packaging	5
Fruits/Vegetable Processing	8
Ice Cream	7
Macaroni & Pasta	6
Snack Foods	8
Soft Drinks	8

Source: ATO Dubai reference materials

Investments in the local food processing industry are led by U.A.E. nationals; however, foreign investments in this sector have grown steadily from 26 percent (of all sector investment) in 1998, to 27 percent in 1999 and to 30 percent in 2000.

Domestic production of some products such as fruit juices, ice cream, soft drinks, bottled water and flour have pushed most competing imported similar products out of the market. While some locally produced foods are of high quality, outside of poultry and dairy products, the majority of them are marketable owing to their low prices.

KEY MARKET DRIVERS FOR FOOD PROCESSING

- ' Gulf Food Industries (Canned Beans)
- ' National Flour Mills Company & EMIGRAIN (Flour)
- ' Al Rawabi Dairy Company (Dairy products and juices)
- ' Strategic Food Industries (Biscuits)
- ' Saigol & Gulf (Snack foods)
- ' Hassani Food Industries (Baby Foods, Snacks, Tea & Herbs, Salt Packaging)
- ' Gulf & Safa Dairies (Dairy Products & Juices)
- ' Al Ain Vegetables Processing & Packaging Factory (Frozen Vegetables)
- ' Al Ain Juice & Refreshment Co.(Juices)

- ' Emirates Dates Factory (Dates Processing)
- ' Tiffany Foods Limited (Biscuits, Flour, Ice Cream, Juices, Meat/Poultry Processing)
- ' Emirates Refining Company (Edible Oils)
- ' Al Buhaira Lacnor (Dairy Products and Juices)
- ' Sahar Enterprises (Seafood, Meat and Poultry Processing)
- ' Al Khaleej Sugar (Sugar)
- ' United Kaipara Dairies Co. (Dairy Products & Juices, Ice Cream)
- ' Kolson Food Industries (Pasta & Macaroni)

The number and volume of U.A.E. companies producing certain products such as juices, fresh milk and other dairy products, pasta and macaroni, snack foods and edible oils has grown rapidly which has led to a significant reduction in the importation of these products from foreign markets. Of course at the same time, this has boosted the demand for the raw materials used for processing such products.

Table - 2: Advantages and Challenges Facing U.S. Products in the U.A.E. Food Processing Sector

Advantages	Challenges
Strong reputation of U.S. juices sparks demand for U.S. juice concentrates	Low quality/priced juice concentrates from other countries threatens U.S. exports
U.S. bulk soybean and corn oils are in great demand for further refining and packaging	Though currently inexistent, demand for GMO free edible oils could cause a shift to other suppliers if they could meet this demand at competitive prices
Increasing demand for joint ventures with U.S. manufacturers to achieve high quality end products	This will negatively affect U.S. exports of finished similar products
U.S. origin products tend to use high quality ingredients and state of the art packaging	Locally produced/labeled products will have an advantage over similar imported products and face less pressure for shelf life labeling requirements

SECTION II.

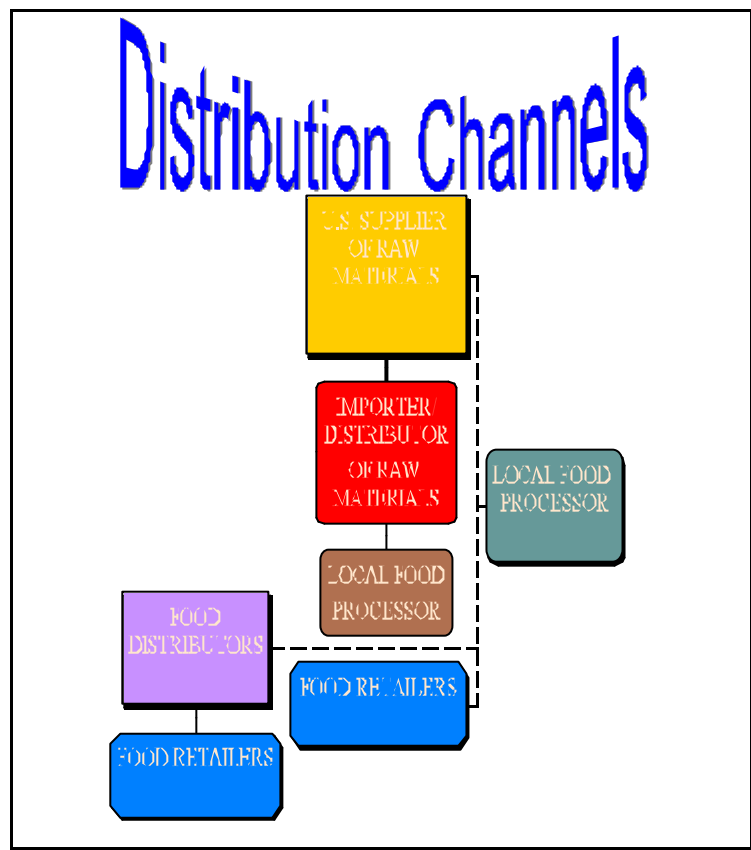
ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Although food processors are always looking for high quality food ingredients for their production, the intense competition usually forces them to sacrifice an ideal set of inputs in order to have a final product that will compete in this price driven market.

U.S. suppliers of raw materials and food processors are encouraged to capitalize on this lucrative market. The following list provides some basics when considering how to start:

1. Study each market. This may seem like obvious advice, but importers often complain that U.S. suppliers are ignorant of local market conditions.
2. Visiting the region is the single most important step a U.S. company can take, if it is serious about doing business in the U.A.E. Letters and faxes alone will not suffice. Follow-up visits are equally important.
3. Exhibit at a major U.S. food show and inform potential customers of your participation well in advance. A large number of Gulf major food importers attend the FMI/NASDA and more and more are going to NRA as well.
4. Target reliable importers. ATO Dubai, Fax: 971-4-311-6189; E-mail: atodubai@emirates.net.ae can assist with verifying the experience and viability of local companies.
5. Be prepared to discuss product price, preferably on a C&F basis.
6. Participate in the Gulf Food Show which is held every two years in Dubai, U.A.E. Gulf Food has grown to be the largest food show in the Middle East. Please contact ATO Dubai for more details on the February 23-26, 2003 exhibition.
7. Stress USA quality. Local consumers are increasingly aware that "Made in the USA" is synonymous with high quality.



B. MARKET STRUCTURE

The flow of raw materials from the foreign supplier to the local processor runs through a typical channel. Food processors may import their requirements of raw materials directly or through a

middleman. On the other hand, final products are mostly channeled to the retailers and consumers directly from the producing company. A less used means is through an appointed specialized food distributor.

Locally processed foods are channeled to the end users in the same manner of those for imported foods. Most food distributors market and distribute imported and locally produced foods side by side to both the retail and HRI sectors.

Table - 3: Major Food Processors in the U.A.E.

Company (Product Type)	Sales (\$Mil) CY2001	End-Use Channels	Production Location	Procurement Channels
International Foodstuffs Co. (meats, fish, poultry)	\$30	Retail; HRI; Export	Sharjah, U.A.E.	Importers; Direct
Best Food Company LLC (canned nuts/snacks)	\$20	Retail; HRI; Export	Dubai, U.A.E.	Direct
Al Kabeer Group of Cos. (meat, poultry, seafood)	\$50	Retail; HRI; Export	Dubai U.A.E.	Direct
Gulf Food Industries (canned vegetables)	\$30	Retail; HRI; Export	Dubai U.A.E.	Direct
Modern Bakery Company (bakery products)	\$45	Retail and HRI	Dubai U.A.E.	Importers; Direct
Kolson Foods (pasta, rice, lentils)	\$10	Retail; HRI; Export	U.A.E.	Direct
Emirates Refining Co. Ltd. (edible oils)	\$140	Retail; HRI; Export	Sharjah U.A.E., Egypt	Direct
Strategic Food International (biscuits)	\$15	Retail; HRI; Export	Dubai U.A.E.	Importers; Direct

Foreign investment in the food production sector is high, nearly 30 percent level of the total. Though many local food producers would favor joint ventures with U.S. companies; thus far, U.S. food companies have not expressed a strong interest in this market. There are however a few examples including U.S. food companies such as Blue Bird Juices and Hunt's Ketchup which have started to pack some of their products in the U.A.E.

As the local food industry is relatively new, it has yet to develop speciality low-fat and low-sugar food products.

SECTION III

COMPETITION

Many types of locally produced foods have recently gained popularity compared to imported products, particularly juices, bakery products, processed meats, snack foods and biscuits. There are several advantages for locally produced foods over imported ones. They are:

1. Less expensive
 2. Fresh stocks are available essentially daily
 3. Reduced companies' needs for large warehousing
 4. Avoid the condition of minimum orders
 5. Avoid labeling problems which frequently occur with imported products
 6. Avoid long shipping periods
 7. Being national products, they have an acceptability/marketing advantage over imported products in some national organizations such as universities, schools, hospitals and armed forces.
- Nevertheless, the combined effect of these forces have not adversely affected U.S. consumer ready food and ingredients exports because:

- a. U.S. origin consumer ready products are recognized as high quality products for which demand continues to be strong.
- b. Ingredients that are required for the production of soft drinks under licence from U.S. companies such as Pepsi Cola and Coca Cola have to be imported from the U.S. to meet quality control standards. Juice concentrates such as orange and apple are often imported from cheaper sources such as Brazil and China, but similar U.S. products are still in demand for their high quality.

Because of the lack of raw materials, high cost of electricity, high cost of recruiting skilled manpower, it is unlikely that there will be a dramatic expansion in the production of locally produced foods. We would estimate that up to 25 percent of local food consumption could eventually be covered through locally produced and processed foods. Edible oils such as corn, soybean and sunflower seed are imported in bulk from the U.S. Competition from other suppliers such as Brazil and Argentina makes it sometimes difficult for U.S. market share to grow. U.S. total food exports to the U.A.E., including food ingredients, have grown in the past few years to record levels, surpassing \$293 million in 2001.

U.S. export figures of commodities have been small, yet this business is expected to increase in view of the construction of two soybean crushing facilities in the Free Zone area of Jebel Ali Port.

SECTION IV.

BEST PRODUCT PROSPECTS

a. Products Present in the Market Which Have Good Sales Potential

- ' Almonds
- ' Beverage Bases

- ' Juice Concentrates
- ' MDM Chicken
- ' Bulk Edible Oils

b. Products Not Present in Significant Quantities but Which Have Good Sales Potential

- ' Peanuts
- ' Bulk Powdered Milk
- ' Ice Cream Powder
- ' Baking Ingredients
- ' Bulk Chili Sauce
- ' Butter
- ' Flavors and food additives
- ' Dried Beans and Pulses
- ' Honey in Bulk
- ' Chocolates
- ' Milled Rice

SECTION V

POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting to the United Arab Emirates or the other markets covered by this office (Bahrain, Kuwait, Oman and Qatar), please contact the U.S. Agricultural Trade Office in Dubai at the following address:

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